

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57853

TOWN OF SOUTH PRAIRIE

Pierce County, Washington

January 1, 1993 Through December 31, 1994

Issue Date: November 15, 1996

TABLE OF CONTENTS

	Page
Background	B-1
Management Section	
<hr/>	
Independent Auditor's Report On Compliance With State Laws And Regulations	M-1
Schedule Of Findings:	
1. Town Officials Should Prepare Annual Financial Reports	M-3
2. The Town Should Limit Expenditures To Budget Appropriations	M-3
3. The Town Should Maintain Positive Cash Balances	M-4
4. Internal Controls Over Accounting Should Be Improved	M-4
5. Town of South Prairie Officials Should Adopt A Whistleblower Policy As Required By State Law	M-5
Financial Section	
<hr/>	
Independent Auditor's Report On Financial Statements	F-1
Financial Statements:	
Fund Resources And Uses Arising From Cash Transactions - 1993	F-2
Status Of Prior Findings	F-4
Addendum	
<hr/>	
Directory Of Officials	A-1

TOWN OF SOUTH PRAIRIE
Pierce County, Washington
January 1, 1993 Through December 31, 1994

Background

Our 1993-1994 audit found significant problems in the Town of South Prairie's accounting and reporting systems. These material instances of noncompliance were also noted in the audit report for the prior two year period (Report No. 55801).

The town has not filed the required annual reports for the past six years, from 1989 to 1994. (See Finding 1.)

The town has repeatedly exceeded budgetary appropriations and maintained negative cash balances. (See Findings 2 and 3.)

The town has not improved its accounting systems and still has many internal control weaknesses which were reported in the prior audit. (See Finding 4.)

The town has failed to adopt a Whistleblower policy as required by RCW 42.41.030. The local government Whistleblower policy is intended to protect local government employees who make good-faith reports about improper governmental actions to appropriate governmental bodies and to provide remedies for such individuals who are subjected to retaliation for having made such reports. (See Finding 5.)

Findings 1-4 are repeat violations which could result in sanctions as provided by state law RCW 43.09.240.

The town has either failed to prepare or provide required financial records. We have requested and communicated in writing additional records we needed to perform the 1993-1994 audit. We did not receive these records. A contributing factor could have been the high turnover in the clerk-treasurer (accountant) position. There were three different town accountants and a contracted accountant during the fiscal period January 1, 1993, through December 31, 1994. Also, the computer system in place during the 1993 and part of 1994 fiscal years was not operating, requiring the accountant to attempt to recreate the financial statement information. After repeated requests, we were unable to obtain any of the financial records in relation to the 1994 audit.

We attempted, but were unable to issue a financial opinion on the town's compliance with state laws and regulations or on the town's financial statements and additional information. The disclaimer results from the lack of preparing and filing annual reports, overexpending appropriations, maintaining negative cash balances, not improving internal controls, and nonavailability of records necessary to perform an audit.

Town officials were given an opportunity to respond to the draft findings, but no response was received.

TOWN OF SOUTH PRAIRIE
Pierce County, Washington
January 1, 1993 Through December 31, 1994

**Independent Auditor's Report On Compliance With State
Laws And Regulations**

Mayor
Town of South Prairie
South Prairie, Washington

We attempted to audit the Statements of Long-Term Debt and the Statements of Fund Resources and Uses Arising From Cash Transactions of the various funds of the Town of South Prairie, Pierce County, Washington, as of and for the fiscal years ended December 31, 1994 and 1993, and were not able to express an opinion on these due to the conditions described in the accompanying report on financial statements dated July 2, 1996.

As part of our audit, we are also required to test the town's compliance with certain laws and regulations which, if not followed, could have a direct and material impact on the financial statements and to test compliance with state laws and regulations as required by RCW 43.09.260, which requires us to make inquiry as to whether the town complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the Division of Municipal Corporations.

Compliance with these requirements is the responsibility of the town's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the town and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

Material instances of noncompliance are (1) failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or (2) considerable failure to comply with the laws and the *Constitution of the State of Washington*, the town's ordinances and orders, and the requirements of the State Auditor's Office. The results of our tests of compliance disclosed instances of noncompliance that may materially affect the financial statements, the effects of which have not been corrected in the town's financial statements. The material instances of noncompliance noted during our audit are disclosed in the accompanying Schedule of Findings.

We considered the instances of noncompliance in forming our opinion on whether the town's financial statements are fairly presented, in all material respects, in conformity with the cash basis of accounting and the statutory provisions described in paragraph two of this report. This report does not affect our report dated July 2, 1996, on those financial statements.

Because of the absence of an effective system of internal control as described in the Schedule of Findings, we could not assure ourselves that we had applied sufficient auditing procedures to satisfy those requirements. Accordingly, we express no opinion as to whether the town complied with the laws and regulations which could be material to the financial statements taken as a whole nor do we provide any further report on items tested or not tested.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 2, 1996

TOWN OF SOUTH PRAIRIE
Pierce County, Washington
January 1, 1993 Through December 31, 1994

Schedule Of Findings

1. Town Officials Should Prepare Annual Financial Reports

The town did not file annual financial reports for the past six years, from 1989 through 1994. This noncompliance has been disclosed in the past two biannual audit reports.

RCW 43.09.230 states in part:

. . . reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year.

When financial reports are not filed as required, town officials, bondholders, grantors, and other users are denied information concerning the town's financial condition.

The reports were not filed because of turnover in the clerk-treasurer position, failure of the general ledger computer system, and inadequate records.

We again recommend the town prepare and file annual reports as required by law.

2. The Town Should Limit Expenditures To Budget Appropriations

Our audit of the town's operations revealed the town again exceeded budgetary appropriations. The town is required to maintain a system of records to monitor expenditures and ensure expenditure of public funds are within the guidelines approved by the town legislative body in an open public meeting. Expenditures exceeded appropriations in 1993 in the following funds:

		<u>Budget</u>	<u>Actual</u>
Current Expense Fund	(001)	\$115,041	\$129,200
Water/Sewer Fund	(401)	17,952	69,328
Sewer Construction Fund	(404)	2,000	270,283
Sewer Bond Redemption Fund	(406)	-0-	14,446

We were not provided either budget or actual expenditure documentation for the year 1994 to be able to determine if expenditures during 1994 were within appropriations as required by law.

The overspending of appropriations violates RCW 35.33.121 which states in part:

. . . the expenditures of the city or town funds or the incurring of current liabilities on behalf of the city or town shall be limited to the following:

- (1) The total amount appropriated for each fund in the budget for the current fiscal year

When expenditures exceed the budget, officials are spending without legal authority. The cause of these budgetary overruns appears to be a lack of diligence by management, lack of monitoring by town officials, turnover in the clerk-treasurer position, failure of the general ledger computer system, and inadequate records.

We again recommend the town avoid exceeding its appropriations and improve its budgeting and accounting system.

3. The Town Should Maintain Positive Cash Balances

During our audit of the town's cash and investment balances, we noted the town again had negative cash balances at the end of fiscal year 1993. Both of the following funds listed were noted in the past audit report as having negative cash balances:

Water/Sewer Fund	(401)	\$(5,991)
Sewer Construction Fund	(404)	(29,288)

The negative balances occurred because cash balances are not being monitored.

Since deficit cash balances actually represent unauthorized interfund loans, insolvent funds are benefiting from the financial resources of the other funds of the town.

RCW 43.09.210 states in part:

All services rendered by, or property transferred from, one department . . . shall be paid for at its full value . . . and no department . . . shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

We again recommend cash balances be monitored to avoid funds becoming and remaining insolvent. We further recommend council approve interfund loans be used when appropriate to keep funds solvent. These loans must be passed by ordinance, have a stated payback period, and carry the current market interest rate.

4. Internal Controls Over Accounting Should Be Improved

Our audit revealed the town has not corrected internal control weaknesses reported in the prior audit report. The loss of the accounting system and not being able to reconcile cash and warrants to independent records are material weaknesses:

- a. Authorization, custody, and recording duties of the accounting systems are not segregated.
- b. The accounting system handling fiscal year 1993 records failed including loss of vendor history, incorrect mathematical computations, and loss of revenue history.

- c. The cash held in banks to the credit of the town did not agree to the general ledger system or the cash receipts and accounts payable records.
- d. Outstanding warrants could not be reconciled between the bank and the town records. The unreconciled difference is \$9,979.63.
- e. Some town financial activity was not recorded on the books as required by law.
- f. The town uses multiple checking accounts, some requiring only one signature.
- g. We found unused checks in the town records which lack the town name, are not prenumbered, and have only one signature line.
- h. Check registers were completed in pencil.
- i. Voided checks did not have the signature block properly removed.

RCW 43.09.260 states in part:

The state auditor . . . shall formulate, prescribe, and install a system of accounting and reporting, which shall be uniform for every public institution . . . The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public

These conditions are a result of the accounting staff changing three times within the two year audit period. Also, the staff is small, and there is a lack of oversight by elected officials. Further, the computerized accounting system which failed was supported by inadequate records.

The absence of adequate internal controls over the accounting system is a material weakness. Public funds are not properly safeguarded. This could result in errors or irregularities occurring and not be detected in the normal course of business.

We again recommend the town improve internal controls over accounting.

5. Town of South Prairie Officials Should Adopt A Whistleblower Policy As Required By State Law

South Prairie officials have not adopted or implemented policies or procedures for investigating Whistleblower complaints as required by state law.

The purpose and intent of a Whistleblower policy is defined by the state legislature in RCW 42.41.010 which states:

It is the policy of the legislature that local government employees should be encouraged to disclose, to the extent not expressly prohibited by law, improper governmental actions of local government officials and employees. The purpose of this chapter is to protect local government employees who make goodfaith reports to appropriate governmental bodies and to provide remedies for such individuals who are subjected to retaliation for having made such reports.

The Local Governmental Whistleblower Protection Act requires local governments to adopt such policies by January 1, 1993.

RCW 42.41.030 states in part:

(2) The governing body or chief administrative officer of each local government shall adopt a policy on the appropriate procedures to follow for reporting such information and shall provide information to their employees on the policy. Local governments are encouraged to consult with their employees on the policy.

The effect of the town's failure to act is to discourage employees from disclosing improper governmental actions or activity. Current respondents could potentially be subject to retaliatory actions without proper protection.

We recommend town officials adopt a Whistleblower policy in accordance with the Local Government Whistleblower Protection Act as codified in Chapter 42.41 RCW.

TOWN OF SOUTH PRAIRIE
Pierce County, Washington
January 1, 1993 Through December 31, 1994

Independent Auditor's Report On Financial Statements

Mayor
Town of South Prairie
South Prairie, Washington

We attempted to audit the financial statements of the Town of South Prairie, Pierce County, Washington, as of and for the fiscal years ended December 31, 1994 and 1993. These financial statements are the responsibility of the town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in the accompanying findings, the town did not file annual financial reports for 1994 and 1993. The town attempted to prepare financial statements for 1993, however, these statements were incomplete and were not based on adequate records. Because there were no annual reports filed and the financial statements for 1993 were incomplete, we were unable to apply sufficient alternative procedures which would enable us to express an opinion on the town's financial statements.

Since the town did not file annual reports for either 1994 or 1993, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on financial statements for 1994 or 1993.

Brian Sonntag
State Auditor

July 2, 1996

TOWN OF SOUTH PRAIRIE
Pierce County, Washington
January 1, 1993 Through December 31, 1994

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. Internal Controls Over Accounting Records Should Be Improved

Resolution: Internal controls over accounting records have not been improved. This finding is repeated. See Schedule of Findings.

2. The Town Should Maintain Positive Cash Balances

Resolution: The town again has negative cash balances. This finding is repeated. See Schedule of Findings.

3. Town Officials Should Prepare Annual Financial Reports

Resolution: The town did not prepare the required reports for 1994 or 1993. This finding is repeated for the second time. See Schedule of Findings.

4. The Town Should Limit Expenditures To Budget Appropriations

Resolution: The town again has overexpended appropriations. This finding is repeated. See Schedule of Findings.